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13 August 1981

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA : Director, NFAC 25X1

FROM : Maurice C. Ernst
Director of Economic Research

SUBJECT : Global Economic Issues

1. Action Requested: none; for information only.

2. Background: Attached is the redraft of 25X1 paper on Global Economic Issues. The paper reflects a number of suggestions from our consultants and others, but is not greatly changed from what you read earlier. As per our earlier memorandum, Harry Rowen and I suggest that you send page 25X1 to Cabinet level economic officials to help focus their attention on major economic policy issues and to help derive major requirements for intelligence analytical support.

2. You have raised a number of important questions (your memorandum dated 30 June) which should be treated in far more depth than can be done in overview paper. The questions 25X1 cut through a substantial part of our research effort, but several projects addressing major questions are far along.

Soviet Economic Vulnerability

We expect to complete a detailed study of Soviet economic dependence on the U.S. and the West and the potential for Western leverage within the next month. Fairly general papers on this topic are available but I have asked for much more concrete treatment.

U.S. Competitiveness

As a research problem, this has to be approached on a topic-by-topic and industry-by-industry basis. Papers are being prepared on:

Japanese Industrial Policy;
the Differential Cost of Capital Among Industrial Countries;
the Automated Machine Tool Industry (including robotics);
Industrial Prospects for Genetic Engineering.

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With respect to international comparisons of broad factors affecting competitiveness (e.g. savings rates, number of engineers) the data are easy to get, but their main purpose appears to be sensitizing people to the overall problem, rather than to provide new information and analysis. The 1972 Peterson report served that purpose well, and we provided most of the data. But I believe that awareness of U.S. competitive problems is far greater today.

Oil Security

This issues is a primary focus of our energy work. Specifically:

-- A paper to be completed this fall assesses the vulnerability to physical disruption (e.g. sabotage) of the oil production and export systems of the Persian Gulf Countries.

-- OER, and an OER consultant have a major effort underway in support of a top priority DoD project to reduce the vulnerability of Western nations to oil supply interruption.

-- An major OER assessment of Energy Prospects Through The 1980s, also due this fall, will carefully analyse the possible circumstances of supply interruptions and their potential impact on Western economies.

Mineral Vulnerability

A paper due in September will assess the uses of strategic metals in the West, the possibilities for supply disruptions, and the means to cope with them. We have just published an Intelligence Assessment and an IEEW article on Soviet minerals trends and policies.

Substitute Sources of Energy

OER has completed a paper on Free World coal prospects and one on nuclear power development in LDC's. The major assessment mentioned above on energy prospects in the 1980's covers all energy sources.

Other major issues

In addition to those issues you specifically mentioned, we expect to complete during the next 2-3 months:

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-- A thorough new analysis of Soviet oil production prospects.

-- Studies on Soviet energy policy, energy use, and non-oil energy supplies.

-- A study of China's capability to absorb industrial technology.

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/ MAURICE C. ERNST

Attachment:
as stated

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